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Financial advisers are adopting the family-office model to welcome kith

ALL IN THE

as well as kin—and the benefits are multiplying for both the firms and

FAMILY

those they serve • By Rebecca McReynolds • Photographs by Pete McArthur

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## THEY'RE THE HOLY GRAIL OF WEALTH MANAGEMENT—

the ultra-affluent clients who can bring in six-figure fees every year for generations to come. But financial advisers looking for fortune to smile on them as broadly as that must be prepared to provide a lot more than investment advice with some estate planning on the side. Today's wealthiest families—those with anywhere from \$20 million to well over \$100 million in total assets—are expecting the kind of high-touch services and sophisticated financial management that have become the hallmark of the single-family office and that most independent financial-planning firms—even those who market themselves to wealthy clients—can't begin to offer.

Moving aggressively into this gap between private family wealth management and retail financial advice are firms that have taken the platform of the traditional family office—set up to anticipate and monitor the financial needs of a single wealthy family—and expanded it to serve more than one. Designed to provide an array of services that go far beyond financial management, these multifamily offices make up one of the fastest-growing segments of the financial-services industry, according to the Family Office Exchange, a multifamily office consulting firm in New York. And no wonder: The average account size for these clients is \$20 million, and the number of families with intergenerational wealth is growing at 12 percent a year, according to the Merrill Lynch/Cap Gemini Ernst & Young "World Wealth Report 2002."

The numbers are alluring enough that some already high-end wealth-management firms are gearing up to make inroads with the ultra-affluent. Once counted among traditional financial planners, these firms have expanded their in-house practices to provide a wider range of services targeted to this market. The ground gained by such players doesn't surprise those who've studied the kinds of firms trying to compete. "Multifamily offices are really an offshoot of financial planning," says Tom Livergood, chief executive officer of the Family Wealth Alliance in Oakbrook, Ill. "They differ on the level of sophistication they offer and the time spent on each service they offer."

Providing such customized services is an expensive proposition. Value-added touches, such as bill paying or managing the household staff, cut profit margins to about half those of traditional money management. And these additional services are just the beginning. The extremely wealthy client can be extremely demanding, sucking time and energy from advisers, says Livergood. But the volume

of assets brought in through these relationships can—if sufficient scale and efficiencies are attained—more than make up for the cost of services and the level of grief.

But it takes capital—and plenty of it—to compete. To keep up, established multifamily offices are allowing themselves to be acquired by the global financial-services companies, as when Credit Suisse Private Banking acquired Frye-Louis Capital Management. And single-family offices, such as Rockefeller & Co. in New York, are opening their doors to outside clients. By managing more assets, they can make more money to pay the costs of managing their own. The office, in fact, becomes a profit center, not just an expense. It's clearly a tough market to crack. There just aren't that many centamillionaires in the waters these days, and the competition to reel in clients with \$20 million or more is fierce. But the rewards of success in this marketplace compel some to try. Here's a look at three firms that have learned that not just any bait will do.

### SENTINEL TRUST CO., HOUSTON

The Fruehauf and Flowers families both built their fortunes in the industrial age. The Fruehaufs manufactured tractor-trailers for the nation's growing fleet of long-haul trucks that supplied the boom after World War II. The Flowerses created their wealth with mining and railroads. But as happens in even the best of families, interest in running the businesses started to wane after a couple of generations, so the assets were sold off, and single-family offices were established to manage the transition of that wealth to later generations.

After more than 40 years of single-family management, though, it became clear to both groups that to continue to function effectively they needed to create efficiencies and



competencies in the business that neither family could do on its own. They not only needed to join forces; they needed to bring other wealthy families into the fold. “What finally drove us to the decision to serve other families was the realization that to attract the type of professionals that we want to have work here, we needed to give them the opportunity to become partners and grow a business and their careers,” says Fort Flowers, president of Sentinel Trust Co., the firm that resulted from the merger.

Although Flowers is the only member of either family who still works full-time in the office, the two families still equally control the voting shares in the firm, have seats on the board of directors, and are themselves clients of the firm. Since the 1997 merger, the staff has grown to 23 and serves 18 families whose combined wealth is more than \$5 billion. Twelve of these families together have approximately \$750 million in investments managed through Sentinel. And that’s just a fraction of the client base’s total net worth, most of which is usually tied up in illiquid assets, such as closely held businesses or real estate.

Flowers’s background in family-owned businesses and

his personal experience as a long-time client and head of a single-family office make him intimately familiar with the demands these clients have and with what it takes to differentiate his firm’s services from traditional financial advice. “We take over a number of functions of the traditional family office—things that a traditional trust company or a broker wouldn’t be able to do,” he says. “Frequently, for example, these clients have set up family limited partnerships that require general-ledger accounting and making sure governing documents are adhered to. That’s something we focus on being able to do.”

Critical to providing this type of service effectively are Sentinel’s trust capabilities, but Flowers is quick to set the firm apart from the traditional stereotype of a trust company. He describes Sentinel instead as a wealth-management firm built on a trust company platform. “We incorporated as a corporate trust company because many of our clients needed an institution that could exercise trust powers,” he says. But that’s strictly a legal function and a client service, not a corporate mind-set, he adds.

Sentinel’s primary focus is family wealth planning,

which is a broader, more intergenerational form of estate planning, that integrates investment management. Before an estate plan can be put in place, the family needs to identify its intergenerational objectives for its assets, and then Flowers and his team work with them to help create strategies for making certain their wealth is put to work to achieve those goals. “This can be one of the hardest parts of the business,” Flowers says. “But it can also be the most fun because you can really make a difference with a family by being an independent observer and a trusted adviser.”

Only after the broad objectives are defined with the help of the family’s outside accountants and lawyers are the legal documents prepared. At that point, the investment plan is drawn up and implemented. Depending on the client’s situation and the total investable assets, Sentinel sets up an allocation mix of 12 asset classes. Most clients choose to have their investments in the more traditional asset classes—domestic equities and fixed income—which are managed directly by the in-house investment team; independent specialist advisers are chosen for alternative investments, including hedge funds, real estate, commodities, and private equity.

In addition to core services comes a broad array of offerings that each client can customize to fit specific needs—everything from concierge services to managing the household budget. Most clients don’t use all the services available, but the key to success is to be ready to respond to any request. “No one has asked us yet to buy a plane for them,” Flowers says. “But if that happens, I’m sure we could.”

That’s because Sentinel doesn’t stint on resources—whether internal or external. The goal is to ensure that each client feels as if he’s the firm’s *only* client. The firm has three senior relationship managers, each with a team of service providers. Each client works primarily with one manager, but a second one is always available as backup. Flowers stays personally involved with every relationship, providing access to top management for every client call. For all this attention, clients are charged a flat fee based on the assets under management and the core services they need. Fees range anywhere from 50 to 100 basis points.

“What separates us from traditional financial-services firms is virtually everything we do,” Flowers says. “What separates us from other MFOs is how we do it.”

## TAG ASSOCIATES, NEW YORK

Stanley Pantowich, CEO, founded TAG Associates 20 years ago with one wealthy client and one mandate—to keep him that way. Today, the firm manages the financial affairs of 80 families, with total assets topping \$3 billion, but the job description hasn’t changed. “Our clients are rich to begin with,” Pantowich says. “They aren’t hiring us to make them more money. They want us to protect what

they have. We’re in the stay-rich business.” And everything that TAG does, from investment management to tax planning to intergenerational wealth transfers is grounded in asset preservation.

Pantowich’s first client was Steve Ross, the businessman who parlayed some funeral parlors and parking lots into what is now AOL Time Warner. Pantowich had been Ross’s tax manager at Arthur Young (now Ernst & Young), but Ross wanted more than just tax management, and Pantowich wanted to do more than just tax planning. “My joy was in dealing with the business owners, not the businesses themselves,” Pantowich says. So when Ross asked Pantowich and some of his tax partners to leave the firm and build a nonexclusive business around him, it was an easy sell. Magnates like Ross are the kinds of clients TAG still mines. Pantowich estimates that 95 percent of the firm’s clients are entrepreneurs—the wealth creators who are just beginning to think about the complexities of preserving and transferring the assets they’ve accumulated.

With backgrounds in accounting, Pantowich and his partners were not interested in building an investment-management firm. They see their role as one of providing clients access and guidance—access to the best service providers for everything they might need and guidance in structuring their wealth to meet current needs and long-term goals. To ensure success, they work closely with each client’s own set of lawyers and accountants to quarterback the entire planning process. “The new buzzword today is ‘open architecture,’” Pantowich says. “But we always thought that was the best answer. We have the freedom to go out and find the best performers for our clients, and when they perform poorly, we can fire them.”

The key to getting clients what they want is information flow, and TAG is the keeper of the key. Each client works with one senior relationship manager, who is also a partner in the firm. That partner then puts together a team that includes bookkeepers, tax preparers, and portfolio accountants. If more specialized services are needed, additional staff will be hired. Together, the team manages every piece of financial information for each client family: money coming in, money going out, paying the nanny, managing the separate household accounts for different homes on different continents using different currencies, structuring the mortgages on those homes to optimize cash flow. Client fees are based on a combination of assets under management and services rendered. “It’s all about having the right information going to the right people at the right time,” Pantowich says. “If you have those things, you’re going to get good answers. But it’s all just based on good, old-fashioned accounting.”

On the question of money management, protecting capital is “rule 1, 2, 3, and 4,” Pantowich says. That



## THE EXTREMELY WEALTHY

client can be extremely demanding, sucking time and energy from advisers. But the volume of assets brought in can—if sufficient scale and efficiencies are attained—more than make up for the cost of services and the level of grief.



means hedging everything. Of the \$3 billion the company manages, more than \$1 billion is invested in hedge funds. Almost \$400 million of that \$1 billion is in two proprietary funds of funds managed by TAG and accessible by its clients for no additional fee. This is consistent with the firm's philosophy of giving unbiased advice. The funds have been so successful that TAG opened one of them to nonclients in 2000, at a market-rate fee.

TAG is painstaking in selecting and monitoring asset managers. Managing managers is, in fact, central to TAG's core competency. Each portfolio is custom-designed around the client's goals, taking into account nonliquid assets such as private companies or unrealized stock options, and each one is assigned to outside money managers. In-house, TAG has a staff of eight full-time managers and analysts who do nothing but keep an eye on the money managers, with Pantowich acting as chief investment officer. "I'm Mr. No," he says.

Newly hired money managers go through a grueling due-diligence screening, which includes a personal background check by a private detective agency. Then the investment committee continually monitors each manager selected.

"Smart people don't suddenly become dumb, but when a manager changes his stripes, he gets fired," Pantowich says. "Our job is to pair up investment styles so that at the end of the day we know exactly what each portfolio is supposed to do."

TAG added one more core competency to its arsenal in 2002, when it merged with GF Capital, an investment bank that brings a new level of expertise in private equity, real estate, mergers and acquisitions, and, of course, investment banking. More important, though, the merger brought fresh ideas and key people into the firm. "One of the toughest jobs in running a family office is finding and keeping smart people who want to grow the business," Pantowich says. Clients look for stability and continuity in their relationships, and the only way to ensure that is to make senior managers partners in the firm. To that end, TAG is 100 percent employee-owned.

"That's a big deal," Pantowich says. "It allows us to get the right people. We are for-profit, as opposed to a single-family office. A single-family office can hire smart people, but there is no incentive for them to stay."

## TANAGER FINANCIAL SERVICES, WALTHAM, MASS.

By 1995, David Beatty had seen financial planning from both sides of the aisle—as a tax and financial-planning specialist with Price Waterhouse and as an officer in a wealth-management firm. What he hadn't seen was a firm that incorporated both worlds, offering the very wealthiest clients comprehensive and sophisticated services but remaining free of the constraints of pushing products through a bank or wirehouse. “One thing that I had seen lacking in the wealth-management industry was breadth of service,” Beatty says. “Few could provide it, and even fewer could provide it within the purview of true independence.”

Beatty believed that he could. And that was the niche he and his partner, Stephen Oliver, targeted when they launched Tanager Financial Services. In less than a decade, the firm has grown to 46 employees managing assets of more than \$2 billion. Some of those assets under management include clients of the firm's portfolio-management division, but the multifamily office works with more than 30 families, with average assets of \$50 million.

“There is no bright line between wealth management and the multifamily office,” Beatty says. “The marker we use is \$20 million and north, but that figure is somewhat arbitrary.” Clients with half that amount may still want and be willing to pay for the full range of services Tanager provides. And sometimes the complexity of the client's situation calls for even greater oversight. “Each client is unique,” Beatty says. “And that's not just marketing speech.”

Because each client in this market requires individual handling and solutions not found on a shelf, Tanager has held to the game plan of working with outside managers for everything from money management to tax planning. The firm's open architecture allows true customization for each client, regardless of the amount of wealth or the complexity of the estate. “We give our clients strategic advice and help them implement it,” Beatty says. “But as a multifamily office, we also get exposure to the best of the best [outside financial expertise]. We're happy for clients to talk to their own estate planners, because it reflects back on us that we're a key part of the team.”

Professional interaction of this kind is central to Tanager's financial-planning model. With assets of anywhere from \$20 million to \$200 million or more, family-office clients require sophisticated financial-planning strategies, usually orchestrated around a core illiquid asset—anything from a closely held business to an inherited trust. More than money management, they need an expert sitting on their side of the table to set long-term investment policy, give them access to negotiated fees, and select and oversee the asset managers, says Beatty. “They want someone to manage the process.”

On hand to do just that is a team of specialists assigned to each client, with a senior relationship manager monitoring each step. The makeup of the team depends on what the client requires. One client may be deeply committed to philanthropy, so a charitable-giving specialist is assigned to the group. Another may want to be closely involved with managing investments, so an investment specialist is brought in to work with the client directly. Staff members are also assigned to pay bills, including wages for the household staff; manage properties; and oversee maintenance of boats or planes.

Handling the money, though, is just one piece of the process. More important is handling the client. Before the investment process even begins, the team meets as often as necessary with both the primary client and the rest of the family to help define their long-term goals and to bring the entire family into consensus.

“Working with families can be a real joy and a real challenge,” Beatty says. It's mostly the former, but having to bring in yet another outside professional—a family counselor—to help mediate the process is not unusual. That process becomes increasingly complicated when several generations are clients of the firm. One family member may not want information shared with siblings or parents; others may have completely different goals and personal agendas. In those situations, Tanager may assign separate relationship managers to different members of the family.

Fees for this kind of hand-holding are based on a combination of assets under management and services provided. Costs can range from tens of thousands to hundreds of thousands of dollars a year, depending on the complexity of the situation. Tanager works with a broad mix of clients, from the newly wealthy entrepreneur to families dealing with generations of inherited wealth, so set-fee schedules won't work. Charges must be negotiated—up front and from scratch—according to the amount and kind of work each family requires.

Settling fees this way ensures that each client is getting value and that Tanager makes a fair margin on each service it provides. It also helps Beatty and his team get a good feel for the prospect before she's brought into the fold. The firm works only through referrals; still, it's important to make sure it's a good client fit. “We need to know that this is going to be a long-term relationship,” Beatty says. “We add value when we are functioning across various levels of service under one roof.”

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